February 18, 2010

Miguel Fraile
Partenariat CUSM
OHL Construction Canada
1440 Saint Catherine Ouest
Montreal, Quebec

Dear Miguel:

MUHC previously requested that each Proponent provide with its original Base proposal, an Alternate Proposal in respect of Parking Services, pursuant to which the management and operation of the Parking Areas would be provided by MUHC (directly, through a foundation, a parking management entity or otherwise) (the "Parking Alternate Proposal") and not by the Private Party.

Pursuant to this Parking Alternate Proposal, the Private Party should still be responsible for the design, construction, maintenance, and life cycle rehabilitation. However, the management and operation thereof would be provided by and the revenues generated and expenses incurred, including the cost of Utilities, would be for the benefit and assumed by MUHC.

In the Parking Alternate Proposal, MUHC specified a Parking Payment that would vary by the number of parking stalls; for example, $148 million for 2,000 stalls and $275 million for 3,000 stalls. We understand that MUHC intends to contribute little or no equity to fund its effective purchase of the parking revenue stream but instead to raise the full amount through the issuance of debt ("Parking Debt" or "PD").

You have provided us with your traffic study information, including a report prepared by SECOR dated September 2009 which you used in your Base Case bid. You have asked that we review the feasibility of a potential financing proposed by MUHC and provide our thoughts with respect to the PD financing. We have consulted with RBC Capital Markets as your underwriters in developing our views.

Based on our review of your traffic studies, our understanding of the parking rate structure used in the November 2009 bid, and the current proposed Parking Payment structure as advanced by MUHC/PPPQ, **<u>we are skeptical that the Parking Payment financing has been sufficiently developed</u>** to a level that a) would give us comfort that **<u>the financing is achievable</u>** (particularly in an amount associated with a given sized parking garage/Parking Payment) and b) **<u>does not substantially increase the execution risk to successfully closing the MUHC PPP transaction</u>**. This view is supported by the fact that the bid date is less than a month away and yet we have no visibility into: a) MUHC's proposed financing structure b) the projected demand for parking and costs underlying their business case, nor, c) the views of the rating agencies on said financing. In addition, the size of the parking garage is not set (and in fact can be determined by the bidders that have no incentive to determine the proper economic size of the garage). In the absence of actual knowledge of MUHC's financing plan, we have set out below a few keys things that we think will be important to explore with MUHC regarding their plan for financing the Parking Payment.

Financing

Coverage Ratios

In our own discussions with rating agencies regarding the inclusion of parking revenues in our Base Case, the agencies expressed a skeptical view of parking. In order to achieve an "A" range rating, we needed to have a minimum 1.25x DSCR and 1.30x PLCR, excluding any parking revenue. As a result, these required ratios were achieved solely from the Periodic Service Payments from the Province. These revenues are subject only to performance related deductions and do not carry the same level of risk as revenues associated with services that vary based on price and/or demand.

Based on our experience, investment grade ratings are possible for projects with price and demand risk. However, for projects without a demonstrated revenue track record, the rating agencies will require the risk associated with these revenues to be mitigated either through substantially higher coverage ratios vs. those required of a project with government backed availability payments and/or through other protections such as:

- strong competitive position,
- essentiality of services, or
- strong monopolistic characteristics with the ability to set rates.

In our experience, parking garages do not "score highly" in these categories -- certainly, a single parking garage in an urban environment would not, even if it is connected to a large hospital, unless significant other protections were granted (e.g. limitations on competing garages within a certain radius of the facility). To put this in perspective, we have been involved in a number of municipal asset divestitures that involved parking facilities. These have run the gamut from large parking systems with a dominant market position in a constrained downtown area to entire on-street (i.e. metered) parking systems. Despite having demonstrated revenue/occupancy track records, stronger competitive positions/monopoly characteristics compared to the MUHC garage, and 40-50% equity, these assets were viewed as borderline investment grade (i.e. BBB-/BBB(low) type financings with minimum DSCR's in the 1.25x range and remaining concession lives of 50+ years.

To the extent MUHC needs to structure debt in the A range (and it may need to do so in order to garner sufficient interest to place the amount of debt it is seeking to raise), it may require DSCRs and PLCRs on the order of 1.75x-2.0x or more and/or significant cash liquidity reserves and some level of significant equity.

In order to test the ability of MUHC to raise the Parking Debt, we have run a couple of scenarios which utilize as its underlying revenue, Partenariat CUSM's Base Case Parking Revenue that was bid in November 2009 and compared the results to the size of the Parking Payment based on a 2,000 spot garage size (i.e. roughly equivalent to the size of the garage design bid). These projections also include the following assumptions:

- The revenue projections were based on the figures from SECOR, your parking consultant, and based on the maximum rates the Concessionaire could charge to staff and doctors and a "conservative average daily rate" charged to visitors.
- The garage is at 100% occupancy during peak hours
- our estimates for MUHC's operating costs and retained capex based on our most recent analysis of costs
- revenues and costs are escalated at 2% per annum
- the parking debt is priced at 6.933% (the rate provided by MUHC/PPPQ in November 2009) and structured with equal principal and interest payments over a 29 year life post completion.

Based on these assumptions, it would be difficult for MUHC to raise sufficient funds to make the Parking Payment absent a serious increase in the average rate charged to doctors, employees and visitors.

Amount of Parking Debt raised (C$000)	Min DSCR	Average DSCR	Initial PLCR	Debt deficiency
148,000	0.60x	0.80x	0.74x	0
100,000	0.88x	1.18x	1.09x	(48,000)
70,000	1.26x	1.69x	1.56x	(78,000)
59,000	1.50x	2.01x	1.85x	(89,000)
44,000	2.00x	2.69x	2.48x	(104,000)

Remedies/Rate Covenants

Given the above, in addition to a need to substantially increase rates, we believe that any PD financing for the Parking Payment will require strong additional protections in the following areas:

- The remedies that will be available to Parking Debt lenders ("Parking Lenders" of "PLs") in the event of a default; and
- The rate setting that MUHC will permit for that parking.

With respect to remedies, we note that **any** financing that is secured by **all** parking available at the Glen Campus gives Parking Lenders the potential power to block access to that parking in the event that there is a default on the debt. If Parking Lenders could shut down parking, they would wield enormous power over MUHC - power that may not be wise to give. Effectively the strength of the Parking Debt credit would come from the essential nature of at least some parking on the campus. **Hence, while purporting to be based on parking revenues, the PD would effectively have defacto recourse to MUHC, whoe will want to maintain parking access.**

We expect that MUHC will be better served if its Parking Debt financing provides limited recourse to Parking Lenders, for example a revenue bond type of rate covenant that would permit Parking Lenders to insist on parking rate adjustments but not otherwise interfere with the ability of MUHC to offer its parking to the public. This rate covenant could be provided without limits or in a limited manner. The nature of the covenant would be one of the first considerations in evaluating the borrowing capacity and expected credit rating of any parking financing.

Parking Demand/Garage Size

We have been asked to consider the amount of PD financing that might be raised, based on the number of parking stalls. We understand that MUHC may wish to reserve a number of stalls for provision at lower rates ("Protected Stalls") and that these stalls may therefore generate less revenue than others. We would need to be told the number of Protected Stalls and the rates at which they will be provided in order to complete our analysis. Perhaps MUHC should establish an availability payment ("Parking Availability Payment") to be made for the Protected Stalls, which stalls can then only be used by designated people (e.g. staff). Only stalls beyond the Protected Stalls ("Broadly Available Stalls" or "BASs") would then be subject to revenue variations based on rate setting and demand.

Consideration of total debt as it relates to the number of stalls will depend on the debt that can be supported by the Broadly Available Stalls. Despite the convenience afforded to these parking stalls by their location on the hospital grounds, they will still receive competition from other parking alternatives in the area.

Once we are provided further details, we can work with our traffic advisors to estimate the future demand for any given number of Broadly Available Stalls at various different parking rates. The analysis will consider three different curves

- The annual gross revenue per BAS and its associated NPV. This curve will be less than linear, with each additional BAS contributing less than the last.
- The annual net revenue per BAS and its associated NPV. This curve will again be less than linear, falling below zero at some point.
- The NPV impact per BAS, which will be the associated net NPV of revenues minus the cost of construction and the NPV of any ongoing costs left with

Project Co. This curve will be negative at a lesser number of BASs than the net revenue curve. The point at which this curve becomes negative likely represents the ideal number of BASs to build.

We do not yet have sufficient information to evaluate the precise amount of Parking Debt that can be raised at a given credit rating level or the optimum number of stalls to build. If we can be provided by MUHC with their proposed remedies, their proposed rate setting regime and their proposed number of Protected Stalls and associated revenues, we will be able to develop our analysis in greater detail.

At this point, however, we would like to **highlight our concern about the Parking Payment structure**. The Parking Payment paid to the winning Proponent and hence the amount that MUHC must raise in its PD financing, escalates in an accelerating manner as the size of the garage increases. In other words, not only does the total size of the Parking Payment increase, but the Parking Payment on a per stall basis increase as the size of the garage increases (see below).

Number of Parking Stalls	*Parking Payment ($M)*	*Parking Payment/Stall*	*% increase from 1,800 spaces*
1,800	123	68,333	0%
1,900	136	71,579	5%
2,000	148	74,000	8%
2,100	161	76,667	12%
2,200	173	78,636	15%
2,300	186	80,870	18%
2,400	198	82,500	21%
2,500	211	84,400	24%
2,600	225	86,538	27%
2,700	240	88,889	30%
2,800	255	91,071	33%
2,900	265	91,379	34%
3,000	275	91,667	34%

This would, on the surface, seem to violate basic laws of supply and demand (i.e. that demand increases more as supply increases). More likely, the demand for incremental parking (and hence the price parkers would be willing to pay) would decrease as each additional spot is added. This payment structure is particularly troubling for a PD financing. The implication is that in order for MUHC to raise sufficient PD financing in order to make the Parking Payment, **average parking rates would need to increase as the size of the garage increases**. All other things being equal, average parking rates would need to be 21% higher for a 2,400 stall garage compared to an 1,800 stall garage. In our mind, this is setting the PD financing up for a failure. While the rating agencies may agree to allow lower coverage ratios on the debt financing if MUHC elects to back the garage with strong covenants and lender remedies, at some point, they will look through these protections and ask a very fundamental question. Are the required rates in line with parking in the area and are the required rates too prohibitive to attract sufficient levels of parking occupancy? Without seeing MUHC's parking study, the Parking Payment regime would seem to inject a substantial amount of execution risk into the PD financing and hence the MUHC hospital P3 given the need for the funds to reach Financial Close.

Based on this information, and in the absence of detailed information from MUHC in a number of key areas, **we would consider it to be extremely dangerous for Partenariat CUSM to adopt the Parking Alternate Proposal for its Base Bid unless the Parking Payment financing could be guaranteed by either MUHC or Quebec**.

Sincerely,

SG Americas Securities